

Message Text

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ACTION EB-07

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 4261

INFO AMCONSUL RIO DE JANEIRO

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TAGS: ETRD, EAGR, BR

SUBJECT: CONGRESSIONAL HEARINGS ON COFFEE PRICE INCREASES

REF: STATE 034044

CONGEN RIO - FAS PREPARED THIS MESSAGE; EMBASSY CONCURS.

INTERNAL COFFEE PRICES (REF, PARA 2.A)

1. THE RETAIL PRICE OF GROUND ROASTED COFFEE AND THE PRICE OF A CUP OF COFFEE AT COFFEE COUNTERS FOR CONSUMERS IN BRAZIL ARE SET AND PERIODICALLY ADJUSTED BY THE GOB. THE PRICE OF SOLUBLE COFFEE IS NOT CONTROLLED BY THE GOVERNMENT. IN JANUARY 1975, THE RETAIL PRICE OF GROUND ROASTED COFFEE FOR CONSUMERS WAS SET AT CR\$13.50 A KILO OR US\$0.83/LB. THIS PRICE REMAINED IN EFFECT FROM JANUARY THROUGH JULY 1975. AFTER THE JULY FROST THIS PRICE WAS INCREASED TO CR\$22.00 PER KILO OR US\$1.23 A POUND AND REMAINED IN EFFECT FROM JULY 1975 THROUGH FEBRUARY 1976. THE PRICE WAS FURTHER INCREASED IN FEBRUARY 2 BY ABOUT 50 PERCENT TO CR\$32.40 PER KILO, OR \$1.69 PER LB.

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PRICES PAID BY ROASTERS AND PROCESSORS (REF, PARA 2.B)

2. DURING THE NINETEEN SIXTIES AND UNTIL 1971, BRAZIL'S GOVERNMENT-OWNED COFFEE STOCKS WERE LARGE AND THE BRAZILIAN COFFEE INSTITUTE (IBC) SOLD COFFEE FROM ITS STOCKS TO DOMESTIC ROASTERS AT SUBSIDIZED PRICES. IN DEC. 1971, THE IBC ELIMINATED THE SUBSIDY GRANTED TO DOMESTIC ROASTERS, WHO SINCE THEN HAVE BEEN ACQUIRING THEIR COFFEE SUPPLIES FROM EITHER GROWERS OR FROM BROKERS AT THE PREVAILING MARKET PRICES. ROASTERS HAVE HAD THE FREEDOM TO BUY ANY TYPE AND GRADE OF COFFEE IN THE DOMESTIC MARKET AND MAKE THEIR OWN BLENDS SUBJECT TO A SELLING PRICE CEILING SET AND PERIODICALLY ADJUSTED BY THE GOVERNMENT. BETWEEN FEBRUARY 1 AND JULY 1, 1975 DOMESTIC ROASTERS PAID AN AVERAGE OF CR\$350/450 PER 60 KILO BAG OR US\$51. FROM JULY 1 AND UNTIL AUGUST 1 ROASTERS PAID BETWEEN CR\$450 AND CR\$550 PER BAG OR US\$62.

3. WHEN THE EXTENT OF THE FROST DAMAGE WAS KNOWN BY EARLY SEPTEMBER 1975 AND THE PROSPECTS FOR TIGHT COFFEE SUPPLY BECAME OBVIOUS, GROWERS BEGAN HOLDING THEIR COFFEE (HARVESTED BEFORE THE FROST) OFF THE MARKET IN EXPECTATION OF PRICE INCREASES. SINCE DEC. 1975, GROWERS' COFFEE PRICES HAVE STEADILY AND GRADUALLY INCREASED FROM CR\$750/800 (US\$85.45) TO CR\$1,000/1,050 (US\$109.39) IN MID-FEBRUARY 1976. PROSPECTS ARE FOR FURTHER INCREASES.

4. PRIOR TO JULY 1975 FROST, SOLUBLE COFFEE MANUFACTURERS WERE ENTITLED TO BUY FROM IBC STOCKS ABOUT ONE-THIRD OF THEIR ANNUAL GREEN COFFEE SUPPLIES AT A CONCESSIONAL PRICE TO HELP THIS INDUSTRY TO COMPETE IN THE WORLD MARKET. THE IBC REDUCED ON MAY 20, 1975 THE MINIMUM EXPORT PRICES FOR SPRAY-DRIED SOLUBLE COFFEE FROM US\$1.41 TO US\$1.25 PER POUND. SINCE THE FROST IBC HAS RAISED THE MINIMUM EXPORT PRICE OF SOLUBLE COFFEE TO US\$2.00 PER POUND AND GRANTS SOLUBLE MANUFACTURERS A SUBSIDIZED PRICE OF CR\$620 OR US\$66.17 PER BAG OF COFFEE SOLD FROM IBC STOCKS. SOLUBLE COFFEE INDUSTRIES CAN BUY UP TO THREE-FOURTHS OF THEIR ANNUAL COFFEE SUPPLIES FROM IBC STOCKS AT THE ABOVE PRICE. THIS PRICE WILL BE ADJUSTED MONTHLY.

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GOVERNMENT MEASURE AFFECTING EXPORTS (REF, PARA 2.C)

5. THE GOVERNMENT, THROUGH THE IBC, CONTROLS COFFEE EXPORT PRICES AND CONSEQUENTLY COFFEE EXPORT VOLUME. IBC SETS A SCALE OF MINIMUM EXPORT PRICES WITH AUTOMATIC MONTHLY INCREASES. THESE INCREASES ARE, HOWEVER, FAR BELOW CURRENT MARKET PRICE INCREASES. PRIOR TO THE JULY FROST MINIMUM EXPORT PRICES FOR GREEN COFFEE SET BY IBC WERE BETWEEN US\$0.48

AND US\$0.50 PER LB. AFTER AUGUST 1 THESE PRICES WERE GRADUALLY INCREASED AND FOR APRIL SHIPMENT THEY ARE US\$0.83/0.85 PER LB. WITH PROSPECTS OF FURTHER INCREASES.

6. THE SAME TREATMENT IS APPLIED TO SOLUBLE COFFEE EXPORT PRICES WHICH WERE ALSO RAISED FROM US\$1.25 TO US\$2.00 PER LB. OF SPRAY DRIED COFFEE FOR FEBRUARY SHIPMENT WITH AN AUTOMATIC MONTHLY INCREASE OF ONE CENT PER POUND UNTIL IT REACHES THE PRICE OF US\$2.05 PER LB. FOR JULY 1976 SHIPMENT.

PRICES TO GROWERS (REF, PARA 2.D)

7. THE GOVERNMENT SUPPORT PRICE TO GROWERS (WHICH IS BELOW PRICE ACTUALLY PAID) VIOR TO THE FROST WAS CR\$418.00 PER BAG OR US\$53.50 BETWEEN FEBRUARY AND JULY 1975. THIS PRICE WAS RAISED TO CR\$500 AT THE BEGINNING OF THE CURRENT MARKETING YEAR. AS OF AUGUST 1 (AFTER THE FROST) THE SUPPORT PRICE WAS RAISED TO CR\$700.00 PER BAG OR US\$86.10. FURTHER INCREASES WERE SET LAST WEEK AT CR\$800.00 PER BAG OR US\$83.70 EFFECTIVE APRIL 1, CR\$850.00 OR US\$83.81 EFFECTIVE JULY 1, AND CR\$900.00 OR US\$83.62 EFFECTIVE OCTOBER 1, 1976. IN DOLLAR TERMS, ADJUSTING FOR CRUZEIRO DEVALUATION THE SUPPORT PRICE HAS DECLINED SINCE AUGUST 1, 1975. ACTUAL PRICES PAID ON FEBRUARY 23 WERE CR\$1000/1001 (US\$106.78) PER BAG. (SEE NOTE ON EXCHANGE RATE AT END OF CABLE).

8. THIS GOVERNMENT ACTION HAS TWO MAJOR OBJECTIVES: (1) TO MAINTAIN COFFEE PRICES AT A FIRM LEVEL THUS MAXIMIZING GROWERS INCOME AND CONSEQUENTLY FOREIGN EXCHANGE EARNED FROM COFFEE EXPORT AND (2) TO MAINTAIN GROWERS' PRICES AT ATTRACTIVE (BUT NOT TOO ATTRACTIVE, TO AVOID OVER-PRODUCTION) LEVELS TO ENCOURAGE GROWERS TO PLANT VITALLY NEEDED NEW COFFEE TREES TO RECOVER THE COFFEE PRODUCTION POTENTIAL LOST DUE TO FROST. BRAZIL LIMITED OFFICIAL USE

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WILL ONLY HARVEST ABOUT 10 MILLION BAGS THIS YEAR INSTEAD OF A CROP ESTIMATED AT 28/29 MILLION BAGS BEFORE THE FROST.

GOVERNMENT MEASURES TO ENCOURAGE PRODUCTION (REF, PARA 2.E)

9. LESS THAN A WEEK AFTER THE JULY FROST, THE ECONOMIC DEVELOPMENT COUNCIL APPROVED A SET OF MEASURES TO HELP RECOVER BRAZIL'S COFFEE PRODUCTION POTENTIAL IN THE NEAR FUTURE AND HAS ALLOCATED A SPECIAL FUND OF CR\$8 BILLION, OR APPROXIMATELY ONE BILLION DOLLARS AT THE THEN PREVAILING RATE OF EXCHANGE. THE PROGRAM FORESEES LINES OF CREDIT AT LOW RATE OF INTEREST FOR PRUNING AND STUMPING FROST DAMAGED TREES, FOR COST OF FERTILIZER AND PESTICIDES AND FOR THE PRODUCTION OF 400 MILLION NEW COFFEE SEEDLINGS FOR LATER REPLANTING. (SEE BB-5042). SO FAR THE RESPONSE TO THIS

PROGRAM HAS BEEN BELOW EXPECTATIONS AND THE IBC IS STUDYING
FURTHER MEASURES PRIOR TO THE COMING PLANTING SEASON OF SEPTEMBER/
OCTOBER 1976.

10. NOTE: THE DOLLAR EQUIVALENT FOR CRUZEIRO PRICES IN THE ABOVE
PARAGRAPHS WAS CALCULATED IN THE FOLLOWING MANNER: FOR
PRICES ON INDIVIDUAL DATES THE OFFICIAL RATE WAS USED, FOR
RANGES OF PRICES ON A DATE THE MIDPOINT OF THE RANGE WAS
USED, FOR A SINGLE CRUZEIRO PRICE OVER A RANGE OF TIME THE
AVERAGE EXCHANGE RATE OVER THAT PERIOD OF TIME WAS USED,
FOR DATES IN THE FUTURE A MONTHLY DEVALUATION RATE OF
TWO PERCENT WAS USED.
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